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Exposure Draft ED/2011/7

Transition Guidance

Proposed amendments to IFRS 10

Comments to be received by 21 March 2012

IFRS™

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This exposure draft *Transition Guidance* (Proposed amendments to IFRS 10) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as an amendment to IFRS 10. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **21 March 2012.** Respondents are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

IN1 IFRS 10 *Consolidated Financial Statements* (issued May 2011) establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IN2 The IFRS Interpretations Committee received requests to clarify the transition guidance in IFRS 10. The objective of the proposed amendments in this exposure draft is to provide this clarification and to make clear what the Board's intention was when issuing IFRS 10. As a result, the Board proposes to:

(a) explain that the 'date of initial application' in IFRS 10 means 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'.

(b) amend paragraph C3 to clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10. As a result, the Board confirms that relief from retrospective application of IFRS 10 would also apply to an investor's interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

(c) amend paragraphs C4 and C5 of IFRS 10 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10.

IN3 It is proposed that the effective date of the proposed amendments would be aligned with the effective date of IFRS 10. It is therefore proposed that an entity would also apply the proposed amendments for annual periods beginning on or after 1 January 2013.

Next steps

IN4 The Board will consider the comments that it receives on the proposals and will decide whether to proceed with an amendment to IFRS 10.

Invitation to comment

The Board invites comments on the questions set out below. Respondents need not comment on all of the questions. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph or paragraphs to which the comments relate;

(c) contain a clear rationale; and

(d) describe any alternatives that the Board should consider, if applicable.

The Board is not requesting comments on matters not addressed in this exposure draft. Comments should be submitted in writing and must arrive no later than **21 March 2012**.

Question 1:

The Board proposes to clarify the 'date of initial application' in IFRS 10. The date of initial application for IFRS 10 would be 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The Board also proposes to make editorial amendments to paragraphs C4 and C5 of IFRS 10 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10.

Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

Question 2:

The Board proposes to amend paragraph C3 of IFRS 10 to clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10. As a result, the Board confirms that relief from retrospective application of IFRS 10 would apply to an investor's interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

[Draft] Amendments to IFRS 10 *Consolidated Financial Statements*

In Appendix C, paragraph C2A is added and paragraphs C3, C4 and C5 are amended. Paragraph C4 has been divided into paragraphs C4 and C4A. Paragraph C5 has been divided into paragraphs C5 and C5A. New text is underlined and amended text is struck through.

<u>C2A</u> <u>For the purposes of this IFRS, the date of initial application is the beginning of the annual reporting period in which this IFRS is applied for the first time.</u>

C3 ~~When applying this IFRS for the first time~~ <u>At the date of initial application</u>, an entity is not required to make adjustments to the <u>previous</u> accounting for its involvement with either:

(a) entities that ~~were previously~~ <u>would be</u> consolidated <u>at that date</u> in accordance with IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*<u>,</u> and~~,~~ <u>remain consolidated</u> in accordance with this IFRS~~, continue to be consolidated~~; or

(b) entities that ~~were previously unconsolidated~~ <u>would not be consolidated at that date</u> in accordance with IAS 27 and SIC-12<u>,</u> and~~,~~ <u>remain unconsolidated</u> in accordance with this IFRS~~, continue not to be consolidated~~.

C4 ~~When application of this IFRS for the first time results in~~ <u>If, at the date of initial application,</u> an investor <u>concludes that it shall consolidate</u> ~~consolidating~~ an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall:

(a) if the investee is a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on <u>that</u> ~~the~~ date ~~of initial application~~ as if that investee had been consolidated (and thus <u>had</u> applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. <u>The investor shall adjust comparative periods retrospectively. Any difference between:</u>

<u>(i)</u> <u>the amount of assets, liabilities and non-controlling interests recognised; and</u>

(ii) the previous carrying amount of the investor's involvement with the investee

shall be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained.

(b) if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on that ~~the~~ date ~~of initial application~~ as if that investee had been consolidated (applying the acquisition method as described in IFRS 3 without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. The investor shall adjust comparative periods retrospectively. Any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee

shall be recognised as ~~a corresponding~~ an adjustment to retained earnings ~~the opening balance of equity~~ at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained.

~~(c)~~

C4A ~~i~~If measuring an investee's assets, liabilities and non-controlling interest in accordance with C4(a) or (b) is impracticable (as defined in IAS 8), ~~the~~ an investor shall:

(a) if the investee is a business, apply the requirements of IFRS 3. The deemed acquisition date shall be the beginning of the earliest period for which application of IFRS 3 is practicable, which may be the current period.

(b) if the investee is not a business, apply the acquisition method as described in IFRS 3 but without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

The investor shall adjust comparative periods retrospectively unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. ~~The investor shall recognise a~~Any difference between:

(a) the amount of assets, liabilities and non-controlling interests recognised at the deemed acquisition date; and

(b) any previously recognised amounts from its involvement

shall be recognised as an adjustment to retained earnings ~~equity for that period~~ at the deemed acquisition date. ~~In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.~~

C5 ~~When application of this IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall no longer ~~consolidating~~ consolidate an investee that was consolidated in accordance with IAS 27 ~~(as amended in 2008)~~ and SIC-12, the investor shall measure its retained interest in the investee ~~on the~~ at that date ~~of initial application~~ at the amount at which it would have been measured if the requirements of this IFRS had been effective when the investor became involved with, or lost control of, the investee. The investor shall adjust comparative periods retrospectively. Any difference between:

(a) the previous amount of assets, liabilities and non-controlling interests recognised; and

(b) the carrying amount of the investor's retained interest in the investee

shall be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when the investor became involved with, or lost control of, the investee.

C5A If measurement of the retained interest is impracticable (as defined in IAS 8), ~~the~~ an investor shall apply the requirements of this IFRS for accounting for a loss of control at the beginning of the earliest period for which application of this IFRS is practicable, which may be the current period. The investor shall adjust comparative periods unless the beginning of the earliest period for which application of this IFRS is practicable is the current period. ~~The investor shall recognise a~~Any difference between:

(a) the previously recognised amount of the assets, liabilities and non-controlling interest; and

(b) the carrying amount of the investor's ~~involvement with~~ retained interest in the investee

shall be recognised as an adjustment to retained earnings ~~equity for that period~~ at the beginning of the period when the loss of control is deemed to have occurred. ~~In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.~~

In Appendix C, paragraph C1A is added.

C1A *Transition Guidance* (Amendments to IFRS 10), issued in [date], amended paragraphs C3, C4, C5 and added paragraphs C2A, C4A and C5A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If IFRS 10 is applied early those amendments shall also be applied early.

Approval by the Board of *Transition Guidance* (proposed amendments to IFRS 10) published in December 2011

The exposure draft *Transition Guidance* (proposed amendments to IFRS 10) was approved for issue by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Elke König	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
John T Smith	
Wei-Guo Zhang	

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

BC1 The IFRS Interpretations Committee received requests to clarify the meaning of the 'date of initial application' in the transition requirements in IFRS 10 *Consolidated Financial Statements*. The submitters of those requests observed that IFRS 10 does not provide a definition of the date of initial application and that this term is not used consistently in the IFRS literature. They asked the Interpretations Committee to clarify whether the 'date of initial application' in IFRS 10 is the beginning of the first reporting period in which IFRS 10 is applied for the first time, or the beginning of the earliest reporting period presented in the first financial statements in which the entity adopts IFRS 10. The submitters also asked whether it was intended that IFRS 10 should be applied retrospectively if, at the time that IFRS 10 is first applied, the investee is no longer consolidated under IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* because it was fully or partially disposed of during the comparative period(s).

BC2 The Interpretations Committee discussed this issue and suggested to the Board that it should clarify 'the date of initial application'. The Interpretations Committee recommended that the Board should amend IFRS 10 for this issue separately rather than addressing this issue through an annual improvement.

BC3 The Board agreed that IFRS 10 should be clarified. The Board noted that the main intention when issuing IFRS 10 was to ensure consistent accounting for transactions when IFRS 10 was applied for the first time (ie 1 January 2013 for a calendar-year entity, assuming no early application). In other words, the intention was to use the date of initial application as the point at which it was determined what interests should be accounted for in accordance with IFRS 10. The Board also noted that the intention was to provide a transition relief if the consolidation conclusion would be the same under IAS 27/SIC-12 and IFRS 10 at the date that IFRS 10 was applied for the first time. The Board concluded that, in those situations, the incremental benefit to users would not outweigh the costs of applying IFRS 10 retrospectively.

BC4 Consequently, the Board proposes to confirm that the 'date of initial application' means the beginning of the annual reporting period in which IFRS 10 is applied for the first time and to amend paragraphs C4 and C5 to clarify that:

(a) an entity should assess whether the consolidation conclusion is different under IAS 27/SIC-12 and IFRS 10 on the date of initial application of IFRS 10; and

(b) if, and only if, the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10, an investor is required to adjust retrospectively its comparative period(s) as if the requirements of IFRS 10 had always been applied, with any adjustments recognised in opening retained earnings (if practicable).

BC5 The Board also noted that, when developing IFRS 10, it had not specified how to deal with situations in which an investor has disposed of all, or a portion, of its interest in an investee during a comparative period such that consolidation would not occur under either IFRS 10 or IAS 27/SIC-12 at the date of initial application. The Board noted that, even in situations where the investee was not consolidated under IAS 27/SIC-12 but would have been consolidated under IFRS 10 until the date of disposal, adjusting the comparative period(s) retrospectively for temporary consolidation until disposal would be of little relevance to users and would be burdensome for preparers, particularly in jurisdictions for which several years of comparatives are required. The Board confirmed that transition relief is also appropriate in those situations and that relief from retrospective application also applies when the consolidation conclusion is unchanged under IAS 27/SIC-12 and IFRS 10 at the date of initial application.

BC6 Consequently, the Board proposes to amend paragraph C3 to confirm that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10. In making this clarification, the Board confirms that the transition relief in paragraph C3(b) would also apply to interests in investees that were disposed of before the date of initial application of IFRS 10.

BC7 Because the mandatory effective date of IFRS 10 is for annual periods beginning on or after 1 January 2013, the Board proposes that these amendments to IFRS 10 should also be in effect on this date. The Board decided to shorten the comment period for this exposure draft to 90 days so that these clarifications can be provided as early as possible.